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ABSTRACT

Although the Family and Medical Leave Act enabled some parents to take unpaid parental leave in order to fulfill family responsibilities, it did not cover all workers and did not provide workers the financial support to do so. This policy report calls for Congress to: require states to allow new parents who have been working to collect unemployment insurance; extend the Family and Medical Leave Act to cover all establishments with greater than 25 workers; expand the child tax credit to $2,000 for parents with children under the age of 1 year, when one parent is staying home with the child; and allow parents who take off work during the first 3 years of their child's life to later make up the tax free retirement contributions they missed. The report discusses the benefits of establishing strong parental bonds with infants, the decline in the number of stay-at-home parents, and parental leave policies in other nations. Three components of a national policy are then presented as a way to help parents stay home with their newborns for at least 6 months: boosting child tax credits, making up lost tax-free retirement contributions, and replacing a portion of income for stay-at-home parents. The report considers two arguments against parental paid leave related to its unfairness to individuals without children and contentions that the policy will hurt business. The policy report concludes by asserting that a change in national policy will benefit families and the nation. (Contains 42 endnotes.) (KB)

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Putting Parenting First

Why it's Time for Universal Paid Leave

by Robert D. Atkinson

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In today's New Economy a growing number of Americans are struggling to balance work and family responsibilities, particularly their responsibilities to care for their newborn children. Research points to the great benefits for infants when a parent can stay home with their newborn. Yet, many families cannot afford to have one parent stay at home, even during the first year of life. While in 1965 only 17 percent of mothers of one-year olds worked full- or part-time, 58 percent did by 2001.[1] So many parents of newborns must work because they cannot afford to give up the second wage earner's income.[2] While the Family and Medical Leave Act (FMLA) made it possible for some parents to take unpaid parental leave, it did not cover all workers and did not provide workers the financial support to do so. In fact, the United States is the only developed country failing to provide widespread, job-guaranteed parental leave with some provision for wage replacement.[3] It is time to build on the FMLA and provide partial wage replacement for new parents to stay home for at least the first six months of a newborn's life. Such a benefit would impose only minimal costs on employers and can be structured so as to not reduce employer incentives to hire workers. Specifically, PPI proposes that **Congress should:**

- Require states to allow new parents who have been working to collect unemployment insurance benefits for 26 weeks (the standard length of time for receiving UI benefits). To help compensate states and employers, the federal government should contribute 50 percent of the costs of the program. It should also exempt these benefits from federal income taxes.
- Extend the FMLA to cover all establishments with greater than 25 workers, instead of its current coverage of workers in establishments with 50 or more workers.
- Expand the child tax credit to $2,000 for parents with children under the age of one, where one parent is staying home with the child.
- Allow parents who take time off work during the first three years of their child's life to later make up the tax-free retirement contributions they missed.

The Problem

While virtually anyone who has been a parent can testify to the importance of establishing a close bond with a newborn, child development research backs up this intuition. From the early studies of developmental psychologists John Bowlby, Harry Harlow, Rene Spitz, and others on the detrimental effects of a lack of attachment to the most recent studies of parent-infant bond on intellectual development, the evidence is clear: The ability of the parent to form close attachments with their infant has long-term benefits, and that bond is affected by the amount of time parents spend with their infant during the first year. The Carnegie Task Force on Meeting the Needs of Young Children summed it up: "Experts can now substantiate the benefits of allowing ample time for the mother to recover from childbirth and for the parents to be with their new baby during the first months of life."[4]

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Recently, an increasing amount of evidence has pointed to the critical role that early bonding and attachment plays in the neuro-cognitive development of the infant.[5] A recent study using data from the National Institute of Child Health and Human Development found that children whose mothers spend the first year at home with them score higher on school readiness at age three and the results persist.[6] Mothers who stay at home for the first six months are also more likely to breastfeed,[7] which has been shown to be beneficial to the infant's health, both in the short-term and throughout life.[8] (It also can help prevent breast cancer in the mother.[9]) Paid parental leave has also been found to have have a significant impact on improving pediatric health, as measured by birth weights and infant or child mortality.[10]

Moreover, the benefits are not just cognitive and physical, they are also emotional and social. Dr. Jay Belsky, professor of Human Development at Pennsylvania State University, reported that his research "clearly reveal[ed] that extensive nonmaternal (and nonparental) care in the first year is a risk factor in the development of insecure infant-parent attachment relationships."[11] Attachment problems are one risk factor for child abuse. When they considered "the irreducible needs of children," leading child development experts Dr. Stanley L. Greenspan and Dr. T. Berry Brazelton concluded that the opportunity for parents to spend significant time with their infants was so important that we should have a national program to provide paid leave for one parent during much of the first year of a child's life.[12]

Why Do So Many New Parents Work?

Only 18 percent of infants spent their first year at home in the care of their mothers.[13] More than one-half of mothers of one-year olds worked full- or part-time. In 1995, nearly 13 million (more than one-half of the nation's 21 million preschool children) were receiving childcare from someone other than their parents.[14] By the time children are four-months old, more than three-quarters of families now use some form of non-parental day care.[15]

There are multiple reasons for this decline in stay-at-home parents, including women's increasing access to the labor market. However, a major factor is that many families cannot afford to give up the second wage earner's income by having one parent stay at home during the first year of life. While the FMLA made it easier for parents to stay home, without financial support it remained difficult for many to do so.[16] Moreover, an estimated 38 percent of workers are not covered by the FMLA, and those who are covered get just 12 weeks of leave, not enough for adequate parental leave.[17]

Parental Leave Policies in Other Nations

In contrast to the United States, most other developed nations provide some kind of paid leave to new parents during the first year of parenting. According to the International Labor Organization, the maternity and nursing benefits given to working mothers in the United States are the least generous in the industrialized world. Ninety-two percent of 158 developed and developing nations provide paid maternity leave to women workers, and one-third permit leaves of more than 14 weeks. The United States is the only industrialized country that does not mandate job-guaranteed parental leave and some provision for wage replacement.[18] For example, in Germany, a new parent staying home can receive modest financial support for up to one-and-one-half years. Denmark provides 18 weeks paid maternity leave followed by 10 weeks paid parental leave that can be taken by either the mother or father. In Sweden, new parents who have been in the workforce receive full pay for at least one year.[19] Beginning in April 2003, the United Kingdom will provide 26 weeks paid maternity leave. New Zealand provides 13 weeks paid leave, but the program covers virtually all workers, even at small establishments, and provides full wage replacement up to $325 per week. Even low-income nations like Afghanistan (at least before the Taliban took over) and the Philippines provide paid leave because they place a high priority on the health and happiness of their nation's families and children.

Our nation's lack of paid parental leave is not because Americans don't want this benefit. To the contrary, polls show that Americans—whether they have children or not—overwhelmingly support expanding family leave policies. A 1998 survey by the National Partnership of Women & Families found that 83 percent of working parents and 81 percent of working people without children favor expanding unemployment or disability insurance to provide partial wages for workers who need to take family leave to care for a newborn, a newly adopted child, a seriously ill family member, or to recover from their own serious illness.[20]

The Solution

The evidence is clear that providing support to help parents stay home with their newborns, at least for the first six months, and other family assistance would not only help individual families but also the nation as a whole. The key is determining what kind of policy can best provide income support during periods of leave. There are three components of this:

- boost child tax credits for children in their first year;
- allow stay-at-home parents to make up lost tax-free retirement contributions; and
- provide new parents who stay home with partial income replacement.

Child Tax Credits

The Progressive Policy Institute has long proposed expanding the child tax credit for children under the age of five in order to make it easier for at least one parent to stay home with the child.[21] Under the tax bill passed by Congress last year, the tax credit for children will increase from its current level of $500 to $1,000 by 2010, although the credit applies to all children under the age of 16.[22] President Bush has proposed accelerating the phase-in so that parents receive the full $1,000 this year. While this approach helps all families with children under the age of 16, it does not provide more generous support for families in the critical first years of a child's life that might enable them to stay at home. **As a result, Congress should expand the child tax credit of $2,000 for parents with children under one year of age where both parents worked the year before the child was born and where one parent stays home with the child during the first year of life.** Single mothers receiving TANF benefits would be ineligible for the tax credit. Parents could take the credit for up to three children.

While tax credits can help make it financially easier for one parent to stay home, especially if they are targeted at parents of very young children, families do not receive the credit for as long as 15 months after taking leave; therefore, tax credits are not enough of an incentive to help a parent choose to stay home for the first six months of a child's life. However, if these credits were supplemented with a bi-weekly paid leave program, more parents would be able to stay home immediately after the baby is born.

Retirement Contribution Fairness

Because of restrictions in the federal tax code, parents who take unpaid parental leave have no way of making up pension contributions once they return to the workforce. In 1999, Congressman Bill McCollum (R-Fla.) proposed the Women's Investment and Savings Equity Act of 1999 that would enable parents who take one year off work to care for a newborn to make up for lost payments to employer-sponsored pension plans. The legislation allowed three years to make up the missed contributions. Such legislation should be broadened to cover the first three years of leave after a newborn arrives, including all forms of tax-exempt retirement contributions, including IRAs and 401k plans. **As a result, Congress should allow parents who take time off work for the first three years of their child's life to later make up the tax-free retirement contributions they missed.**

Paid Maternal and Parental Leave

Currently, only 8 percent of workers are eligible for paid parental leave, while another

18 percent are eligible for disability insurance that may sometimes cover pregnancy and childbirth-related disability.[23] As a result, there is a clear need to increase the provision of paid maternal and parental leave. There are two main ways to provide paid maternal and parental leave: state disability insurance and unemployment insurance.

State Disability Insurance

One way to provide paid parental leave is through state disability insurance programs. California recently became the first state to allow new parents to collect disability payments through its Temporary Disability Insurance (TDI) Program. Under the program, California workers pay into a fund that provides them with disability insurance should they be injured on the job.[24] Under the new law, workers who have earned at least $300 in wages during a 12-month base period occurring approximately five to 17 months previous to the claim are eligible for benefits for up to six weeks to take time off work to care for a newborn or care for sick parents, spouses, or children. Depending on their income and how much they were paying into the fund, workers can receive between 55 percent and 60 percent of wage replacement, up to $728 a week. While TDI programs are one way to enable new parents to obtain paid leave, only five states have state-funded TDI programs.[25] As a result, TDI programs are not likely to be a viable means to provide benefits for most Americans. In contrast, all 50 states and the District of Columbia have unemployment insurance programs.

Unemployment Insurance

Workers who become unemployed through no fault of their own are eligible for unemployment insurance (UI) of up to 26 weeks.[26] Under the UI system, which each state administers under federal guidelines, employers pay a tax as a share of payroll for each worker (the average tax is approximately 0.95 percent of wages). Workers do not contribute directly, although like all employer costs, a share of the costs come through higher prices or lower wages. The rate of wage replacement for laid-off workers differs depending on the state and the worker's income, but the average weekly benefit nationally in 2000 was $221.[27] This amounted to approximately 33 percent of the weekly wage.

In many ways, UI is the ideal system for instituting paid parental leave programs. It does not require employers to maintain another set of complicated records. Nor does it require an additional government benefits delivery system. This is why in 1997 Canada allowed new parents to collect unemployment insurance. In Canada, new parents are eligible for a basic unemployment insurance benefit rate of 55 percent of average insured earnings up to a maximum of $413 per week. However, in the United States under current federal law, workers who choose to take a temporary or permanent leave from their jobs to stay home with a newborn are not eligible to collect unemployment insurance.[28] To remedy this, President Clinton signed an executive order in 1999 allowing states to change their laws to enable parents of newborns or adopted children to qualify for UI benefits while they take family leave. In response, at least 12 states considered legislation, but none passed it. For example, the Washington legislature considered but did not enact legislation in 1999 and 2000 that would have allowed parents of newborn or newly adopted children to collect unemployment insurance for up to five weeks while caring for their child. This experience demonstrated that few states will use federal flexibility to expand UI eligibility to new parents largely because the competition between states for a "good business climate" lead them generally to limit, not expand, UI eligibility.[29] The point is moot in any case, as President Bush recently repealed the Clinton executive order preventing states from offering this benefit even if they wish.

In order to enable parents of infants to receive paid leave, **Congress should amend unemployment insurance legislation to require that workers in every state qualify for up to 26 weeks of unemployment insurance provide that they: take leave or quit a job to care for a newborn or adopted child under**

the age of two; have been employed for at least 12 months before taking leave or quitting; and provide at least eight weeks notice to their employer. Congress should also exempt UI benefits paid for parental leave from federal income tax.

A mother could begin collecting benefits two months before giving birth, but could receive benefits for no more than 26 weeks total. In some cases, mothers with difficult pregnancies are advised to stay home on bed rest before giving birth. Enabling mothers to draw benefits during this period would enable more mothers to stay at home when medically necessary.[30] If a father stayed home, he could receive the benefits for up to 26 weeks after the child was born. The work requirement of 12 months of employment is important so workers don't have an incentive to enter a job shortly before giving birth just to receive these benefits. However, given the mobility of today's workforce, parents would also be eligible if they were employed 14 out of the last 16 months, even if with multiple employers. Workers would not only have to work for at least 12 months, but also be employed a certain number of hours within that period to qualify.[31]

In order to share the burden of the family leave program with employers, the federal government should commit to funding one-half the cost of the program. States could file claims quarterly for one-half the total benefits they paid out in the prior quarter to individuals getting UI benefits for parental leave. In order to not penalize individual employers who have employees taking this benefit, the payments for these benefits should not be charged to the individual employer's UI account (as they are in cases where the employer is at fault, such as a layoff). Rather, charges would be billed against the general account paid into by all employers in a state. In addition to being fair to employers, this plan also has the benefit of not discriminating against companies or industries that employ a higher share of women. To be fair to states that already provide such benefits through other means (e.g., state disability insurance) the federal government would compensate states for one-half the payments made under these alternative systems, assuming that workers in these states were not also eligible for UI parental leave benefits.

The costs of this proposal are relatively modest—approximately $4.2 billion per year, divided equally between the federal government and employers. This is calculated as follows: Approximately 4.1 million children were born in 2000.[32] Of these, approximately 2.4 million parents (58 percent) were in the labor force before giving birth. Assuming that the average weekly benefit is $192[33] and workers receive payments for an average of 10 weeks[34] (this assumes that some workers will not take the benefit at all, others will choose the 12 weeks under which they are covered by FMLA, while still others will take the full 26 weeks), the total cost of the benefits would be $4.2 billion. If Congress provided an offset of 50 percent of the funds, with the remainder coming from state UI taxes, this would add approximately $2.1 billion per year to the costs of UI, raising unemployment insurance taxes by approximately 0.07 percent, to a total of 0.7 percent of wages.

Arguments Against Using UI for Paid Leave for New Parents

The two main arguments made against providing parental paid leave are that it is unfair to people without children and that it will hurt business.

Most Americans support paid parental leave through the UI or disability insurance systems.[35] However, some opponents argue that since the benefits of paid leave accrue to the family, society shouldn't subsidize it. This is a mistaken view for two reasons. First, society has a stake in producing a healthy next generation, in part to help ensure a productive workforce to help financially support retirees. While there are clear social benefits of good parenting, the costs of raising children are overwhelmingly private (except for a portion of education) and can be significant. A two-parent household earning $36,800 to $61,900 will spend $160,000 to feed, clothe, and shelter

a child until the age of 18.[36] Moreover, during the course of their lifetime, mothers earn less compared to childless women, although a mother will produce a worker that could pay retirement benefits for both women.

Second, it is not just the number of children parents have that lead to social benefit, it is how the children are raised. The time and energy parents spend in providing high-quality parenting is an investment that benefits the whole society. Children who are blessed with higher quality parenting are less likely to be a drain on societal resources (e.g., incarceration, poor health, etc.). They also become better workers, leading to a more productive economy. Arguing that parents should bear all the costs of paid parental leave is akin to arguing that the costs of education should be paid for directly by parents; after all, they are the ones choosing to have kids.

Others argue that paid family leave will hurt business, especially if they must pay a share. But we are not proposing some wholesale replication of the European welfare state with overall employer tax and employee benefit levels so high that they restrict hiring and limit the incentive to work. On the contrary, the costs involved in extending parental leave would be minimal, increasing UI taxes businesses pay by less than 10 percent. Moreover, by requiring all states to implement family leave, businesses in all states and industries are equally affected and would not suffer a loss in the competitive position relative to their competitors in other states. This is also true with respect to impacts on small businesses or those with lower profit margins. Since all businesses are affected equally, there would be no differential competitive impact. Moreover, the small amount would not reduce the incentives companies have to hire workers—especially since macro-economic forces are the overwhelming factor determining whether employers hire or not.

Some argue that more liberal leave policies hurt business by making it difficult for companies to plan ahead, which would especially hurt small companies. It would be disingenuous to argue that enabling workers to take parental leave would help business, at least in the short term. However, these negative effects would be minimized by the requirement to give companies eight weeks notice. Moreover, there is some evidence that more generous parental leave policies actually makes it more likely that workers will return to work. Researchers from the University of Iowa asked more than 300 women if and why they returned to work after their pregnancies. They found that women who returned to their jobs had the longest maternity leaves (both paid and unpaid).[37] Studies in the United Kingdom have come up with similar findings.[38] In addition, many small companies are not covered by the FMLA and do not voluntarily provide this benefit. As a result, workers in small companies are less likely to take advantage of paid parental leave. This would be somewhat less true if FMLA was extended to employers with between 25 and 49 workers, but even then, many small businesses would be exempt.

Some say that such a program would drain the UI system of needed funds, especially now that reserve accounts have been drawn down in the economic slowdown. However, as discussed above, the amounts involved are modest and would require relatively small increases in UI taxes or smaller reductions in UI tax cuts than otherwise would have been enacted. Moreover, during the 1990s, many states cut UI taxes on employers and restricted eligibility, suggesting that even if rates increased for most states, employers would not pay more than they did in the early 1990s. For example, in 1988 the average UI tax rate as a share of total wages was 0.62 percent, compared with 0.97 percent in 1998.[39] In other words, **even if the added parental benefits were reflected in a UI tax increase, UI taxes would still be 30 percent lower than they were in 1988.**

Finally, in the long run, paid leave would reduce costs to society from weaker families and less productive workers, and business would share in the benefits. To be sure, in the short run business will pay more than they would otherwise. However, employers also receive some direct benefits from paid leave.

Extending the Family and Medical Leave Act

When President Clinton signed the Family and Medical Leave Act, it was a major step forward in creating a work environment for American workers that let them better balance work and family responsibilities. However, as described above, FMLA provides only 12 weeks of leave, significantly less than is needed to adequately care for a newborn. Moreover, because FMLA covers only work sites with 50 or more workers, approximately 38 percent of workers are not covered by its provisions (although approximately 60 percent of establishments with 25 to 49 employees report providing FMLA coverage). Therefore, even if new parents are eligible for paid maternal and parental leave through unemployment insurance, some workers will not be able to take time off work in order to take advantage of these benefits. As a result, in order to provide support for more workers to stay home to care for their newborns, we propose that **Congress should require all establishments with more than 25 employees be subject to the Family and Medical Leave Act.**[40] Most Americans support such a move. A poll by for the National Partnership for Women & Families found that 84 percent of women and 74 percent of men favor expanding FMLA to cover companies with more than 25 employees.[41]

Conclusion

Not all parents return to work soon after giving birth because of financial reasons. But for working parents who would like to stay home but cannot afford to, providing more generous tax credits and UI benefits can make family leave feasible. The time parents spend with their infants is an indispensable social investment in the future of America's families, and most importantly in the healthy start for our children. As the Carnegie Commission stated: "When adequate parental leave benefits enable infants and parents to have sufficient time together, everyone profits."[42]

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Endnotes

[1] Carnegie Corporation of New York, "Starting Points: Meeting the Needs of Our Youngest Children," April 1994, *http://www.carnegie.org/starting_points/*.
Also, U.S. Census Bureau, "Statistical Abstract of the United States," 2002, table No. 571.
[2] A 2000 Department of Labor national survey found that 78 percent of employees who did not take needed family or medical leave cited lost wages as the primary reason. (U.S. Department of Labor report, *Balancing the Needs of Families and Employers: Family and Medical Leave Surveys*, 2000 Update, *http://www.dol.gov/asp/fmla/main.htm*.)
[3] Carnegie Corporation, 1994.
[4] Carnegie Corporation, 1994.
[5] Shore, Rima, *Rethinking the Brain: New Insights into Early Development*, New York: Families and Work Institute, 1997.
[6] Lewin, Tamar, "Study Links Working Mothers to Slower Learning," *The New York Times*, July 17, 2002, A14.
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[8] The World Health Organization recommends full breastfeeding for at least six months.
[9] Smigel, K. L., "Breast-feeding linked to decreased cancer risk for mother, child," *Journal of the National Cancer Institute*, no. 17, 1988, pp. 1362-1363.
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[14] Kelly, Michael, "The Child Care Experiment," *The Washington Post*, Jan 14, 1998, A19.
[15] Barnet and Barnet, *op. cit.*
[16] Family and Medical Leave Act of 1993 provides for up to 12 weeks of unpaid leave to care for a newborn or newly adopted child, a seriously ill child, spouse, or parent, or for a worker's own medical condition. Workers in companies with 50 or more employees at the same work site and in public jobs, who have been with the same employer for at least one year are eligible.
[17] Economic Opportunity Institute, "Family Leave Insurance Frequently Asked Questions," *http://www.econop.org/FLI-FAQs.htm*.
[18] Carnegie Corporation, 1994.
[19] Carnegie Corporation, 1994.
[20] The poll also found that 82 percent of women and 75 percent of men favor expanding UI or disability insurance to provide partial wage replacement for workers using the FMLA. "Family Matters: A National Survey of Women and Men conducted for The National Partnership for Women & Families," The National Partnership for Women & Families, February 1998, table no. 7-8, *http://www.nationalpartnership.org/content.cfm?L1=8&L2=1&GuideID=5&ArticleID=12&HeaderTitle=Paidpercent20Leavepercent2FFamilypercent20Leavepercent20Benefits*.
[21] Robert Shapiro, "Bearing Fair Burdens," *Progressive Policy Institute*, December 1, 1991; Anne Kim, "Double the Child Tax Credit," *Blueprint Magazine*, Winter 2001, p. 40.
[22] Under the current tax bill, the credit will revert back to $500 in 2011.
[23] U.S. Department of Labor, *Balancing the Needs of Families and Employers: Family and Medical Leave Surveys* 2000 Update.
[24] Under the California system, workers could get disability payments if they were forced to miss work due to pregnancy or complications from childbirth. However, until the recent change, parental leave did not qualify.
[25] States with disability programs are California, Hawaii, New Jersey, New York, and Rhode Island.
[26] During periods of high unemployment this can be extended by an additional 13 weeks.
[27] U.S. Census Bureau, *Statistical Abstract of the United States*, 2002, table no. 529.
[28] Under federal law, workers must be "able and available" to work in order to collect UI benefits. However, federal law does provide some exemptions to this. For example, workers on temporary layoff do not have to be looking for work to collect. Similarly, in many states workers in approved training programs can collect UI even though they are not available for work.
[29] Atkinson, Robert D., "Modernizing Unemployment Insurance for the New Economy and the New Social Policy," *Progressive Policy Institute*, February 2002.
[30] To receive the pre-birth benefits, a mother would need to present a medical order from her doctor.
[31] Workers who were eligible for UI benefits in terms of the number of hours worked would be eligible for UI parental leave benefits as long as they worked at least the prior 12 months.
[32] U.S. Census Bureau, *Statistical Abstract of the United States*, 2002, table no. 66.
[33] The estimated average UI payment for women.
[34] Some parents may choose to collect benefits for less than 26 weeks.
[35] "Family Matters: A National Survey of Women and Men conducted for The National Partnership for Women & Families," The National Partnership for Women & Families, February 1998, *http://www.nationalpartnership.org/*

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[36] Hewlett, Sylvia Anne, "Have A Child and Experience the Wage Gap," *The New York Times*, May 16, 2002, A 23.

[37] Seitel, Susan, et al., *Work and Family: A Retrospective, Research and Results from 1990 to 1996*, Minnetonka, MN: Work and Family Connections, Inc., 1997, P. 118.

[38] *http://www.ivillage.co.uk/print/0,9688,165442,00.html.*

[39] *http://workforcesecurity.doleta.gov/unemploy/content/hdbk394_99/lnk98.html.*

[40] In 2000, 24 percent of the workforce worked for establishment companies employing fewer than 20 employees. While exact data are not reported publicly, one can infer that approximately 27 percent to 28 percent of workers work for establishments of 24 workers or less.

[41] "Family Matters: A National Survey of Women and Men conducted for The National Partnership for Women & Families," The National Partnership for Women & Families, February 1998, table no. 3-4, *http://www.nationalpartnership.org/content.cfm?L1=8&L2=1&GuideID=5&ArticleID=10&HeaderTitle=.*

[42] Carnegie Corporation, 1994.

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